

# REPORT OF THE SUPERVISORY BOARD

## CLOSE COOPERATION BETWEEN SUPERVISORY BOARD AND BOARD OF MANAGEMENT

In 2018, the Supervisory Board of DEUTZ AG continued its ongoing monitoring of the management of the business in accordance with the requirements of the German Stock Corporation Act (AktG) and the German Corporate Governance Code and provided advice to the Board of Management on key decisions. The Supervisory Board was directly involved in all material decisions taken by the Board of Management. In particular, the Board of Management coordinated closely with the Supervisory Board on the Company's corporate strategy.

A total of five ordinary and three extraordinary Supervisory Board meetings were held in 2018, including the constitutive meeting on 26 April 2018 following the re-election of the members of the Supervisory Board at the 2018 Annual General Meeting. Apologies for absence were received for the meeting on 8 March 2018 (Mr Gummesson), for the meeting on 17 April 2018 (Mr Finken and Mr Karlsten), for the meeting on 18 July 2018 (Mr Ludwig) and for the meeting on 27 September 2018 (Ms Albrecht); all members of the Supervisory Board participated in all the other meetings in 2018.

At each of the ordinary meetings of the Supervisory Board, the Board of Management reported on the general economic, market and competitive environment for the DEUTZ Group, presented a business update and sales report that included detailed information on the actual performance of the business over the immediately preceding period, submitted an up-to-date risk report, provided information on key operational issues and offered an overview of the results forecast for the year as a whole. These reports were made on the basis of the key performance indicators that were already familiar to the Supervisory Board members from the Company's written monthly reports. These key performance indicators included

new orders, orders on hand, revenue, unit sales, EBIT, research and development expenditure, capital expenditure, working capital, quality data and headcount data, in each case compared against the prior-year figures and budget. Reports from the Human Resources and Audit Committees presented by their chairperson were also a regular item on the agenda of the Supervisory Board meetings.

## FOCUS OF SUPERVISORY BOARD DELIBERATIONS

The deliberations and discussions of the Supervisory Board in the year under review focused on the current business position and risk situation of the DEUTZ Group as well as on the operational and strategic development of the business. Particular attention was paid to the E-DEUTZ strategy, the integration of Torqeedo GmbH into the DEUTZ Group, the alliance with Liebherr, the development of new business and the steps to bring about lasting quality improvements. The Supervisory Board also deliberated at length on the events that led to the review and subsequent correction of carrying amounts for the Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd., on preparations for the full withdrawal from the DEUTZ Dalian joint venture completed at the end of 2018 and on the DEUTZ Group's new strategy for China. Finally, the Supervisory Board was involved in preparations for the partial financing of the acquisition of the business of the supplier Neue Halberg-Guss GmbH, Saarbrücken, by new owner companies.

Other key decisions concerned the 2019 budget, the medium-term planning up to 2023, the adoption of the profile of skills and expertise for the Supervisory Board pursuant to article 5.4.1 of the German Corporate Governance Code, the diversity plans for the Board of Management and Supervisory Board, and the approval of capital expenditure and development projects. As is the case every year, the Supervisory Board also adopted resolutions concerning the achievement of targets by the Board of Management – and consequently its variable remuneration for the previous year – as well as the setting of its targets for the current year and its medium-term targets.

The Board of Management ensured that it provided the Supervisory Board with comprehensive, regular and timely information at all times. Between meetings, the Board of Management informed the members of the Supervisory Board in writing about all important events. In addition, the chairman of the Supervisory Board and the chairman of the Board of Management remained in close and regular contact to discuss all important transactions, imminent decisions and optimisation measures. All the decisions that the Supervisory Board was required to take in accordance with the law and Statutes were taken on the basis of the reports and draft resolutions submitted by the Board of Management and, where necessary, following preparation by the relevant committees of the Supervisory Board.

## COMPOSITION OF THE BOARD OF MANAGEMENT

At the time this annual report was published, the Company's Board of Management consisted of three people: Dr Ing Frank Hiller (Chairman, responsible for technical and head-office functions), Dr Andreas Strecker (Board of Management member since 1 March 2018, initially with no areas of responsibility, then since 1 April 2018 responsible for finance, human resources, purchasing and information services) and Mr Michael Wellenzohn (responsible for sales, service and marketing).

At the Supervisory Board meeting on 8 December 2017, following preparatory work by the Human Resources Committee, the Supervisory Board, as already reported, appointed Dr Andreas Strecker as a member of the Board of Management and as the Company's Human Resources Director for the period from 1 March 2018 to 28 February 2021. On 1 April 2018, following his appointment to the Board of Management on 1 March 2018, Dr Strecker took over responsibility for finance, human resources, purchasing and information services from Dr Margarete Haase, whose term of appointment on the Board of Management ended on 30 April 2018.

By means of a resolution dated 31 January 2018, following preparatory work by the Human Resources Committee, the Supervisory Board, as already reported, extended Mr Wellenzohn's appointment by five years for the period from 1 January 2019 to 31 December 2023.

## CORPORATE GOVERNANCE: DECLARATION OF CONFORMITY WITH ONE EXCEPTION

At its meetings on 27 September and 13 December 2018, the Supervisory Board again held in-depth discussions on the German Corporate Governance Code as amended on 7 February 2017 and, together with the Board of Management, issued a declaration of conformity pursuant to section 161 AktG on both occasions. Since 13 December 2018, this declaration has included only one variance from the Code and since 14 December 2018 has been available in the 'Investors / Corporate Governance' section of the Company's website at [www.deutz.com](http://www.deutz.com), where it can be downloaded.

## MATTERS HANDLED EFFICIENTLY BY FOUR COMMITTEES

The Supervisory Board has created four committees to enable it to perform its duties effectively. These committees prepare various topics and resolutions for the full Supervisory Board. Details of all members of the Supervisory Board and its committees, as well as other directorships held by its members, are shown separately on pages 140 to 141 of this annual report.

The Human Resources Committee makes preparations for all Supervisory Board decisions concerning the appointment of members of the Board of Management and their contracts of employment, including the remuneration specified therein, and all issues arising in this connection. The committee met twice in 2018. Among the main matters addressed were the achievement of the Board of Management's targets for 2017 and the setting of Board of Management targets, including medium-term targets, for 2018.

The work of the Audit Committee focused on monitoring the financial accounting process and on the preparatory review of the annual and consolidated financial statements, the combined management report of DEUTZ AG and the Group for 2018 and the profit appropriation resolution. Discussions were also held with the Board of Management on the condensed interim consolidated financial statements and the interim management report for the period

ended 30 June 2018, which were reviewed by the auditor, and the interim management statements for the periods ended 31 March and 30 September 2018, in all cases prior to their publication.

The Audit Committee examined the audit engagement for the year ended 31 December 2018, including a review of auditor qualification and independence, the agreed fees and the proposed focus of the audit, and discussed the permitted non-audit services that were performed by the auditor in 2018 in accordance with a pre-approval catalogue and that are scheduled to be performed in 2019 as well.

In its meeting on 27 February 2019, which was attended by the Board of Management and the external auditor, the Audit Committee examined in detail the annual and consolidated financial statements on the basis of those statements and the combined management report of DEUTZ AG, the profit appropriation resolution, the separate combined non-financial report, the Board of Management report and the corresponding auditors' reports for 2018. During the meeting, the auditor gave a detailed report on the process and key findings of its audit of the aforementioned financial statements and of the combined management report including the key audit matters and the early-warning system for risk and answered all supplementary questions comprehensively. According to the findings of the audit, no issues were identified with the internal control system relating to the accounting system or with the early-warning system for risk. The committee's preparatory review also covered the auditor's review of the separate combined non-financial report for DEUTZ AG.

In addition, it held intensive discussions on the events that led to the review and correction of carrying amounts for the Chinese joint venture DEUTZ (Dalian) Engine Co., Ltd, and the audit carried out by the German Financial Reporting Enforcement Panel (FREP) in connection with this. The meetings also addressed the current status of the supplier Neue Halberg-Guss GmbH, matters related to the purchase price allocation for Torqeedo, the business performance of the subsidiaries and impairment tests for investments and goodwill. The Audit Committee gave the Supervisory Board a recommendation for its proposal to the Annual General Meeting regarding the appointment of the auditor for the

single-entity and consolidated financial statements for 2019 and regarding the engagement of an auditor to provide a limited assurance report for the 2019 non-financial report.

The effectiveness of the risk management system, accounting-related internal control system and internal audit were also discussed in detail, as were matters related to compliance. In the meeting on 30 July 2018, the Chief Compliance Officer and the Head of Group Internal Audit gave a report and answered the Audit Committee's questions.

The Audit Committee held four meetings in 2018, all of which were attended by all the committee's members, the Board of Management and the external auditors.

The Arbitration Committee set up pursuant to section 27 (3) of the German Codetermination Act (MitbestG) is responsible for the activities described in section 31 (3) of the Act. It did not need to be convened during the year under review.

The Nominations Committee is tasked with proposing to the Supervisory Board suitable candidates as shareholder representatives on the Supervisory Board. The Nominations Committee met twice in 2018. Discussions at these meetings focused on the Supervisory Board election that was held in 2018.

The entire Supervisory Board was informed of the outcome of all discussions in the committees and gave its approval to the recommendations for board resolutions submitted by the committees.



**Dr Ing Bernd Bohr**

Chairman of the Supervisory Board

## ANNUAL AND CONSOLIDATED FINANCIAL STATEMENTS AUDITED IN DETAIL AND APPROVED

The annual financial statements of DEUTZ AG prepared by the Board of Management in accordance with the German Commercial Code (HGB), the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) and the combined management report for DEUTZ AG and the DEUTZ Group, in each case for the year ended 31 December 2018, were audited by PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Cologne, Germany, the auditors appointed by the Annual General Meeting on 26 April 2018. The auditors issued unqualified opinions.

The annual financial statements of DEUTZ AG, the consolidated financial statements, the combined management report, the Board of Management's proposal for the appropriation of profit and the auditors' reports were made available to all members of the Supervisory Board and were examined by the Supervisory Board. The auditors explained their audit findings in detail to the Audit Committee meeting held on 27 February 2019 and to the Supervisory Board meeting held on 7 March 2019 and answered any supplementary questions raised.

The Supervisory Board approved the findings of the auditors' reports on DEUTZ AG and the DEUTZ Group. The conclusive findings of the Supervisory Board's own audit have not led to any reservations about either the annual financial statements or the consolidated financial statements, and the Supervisory Board has therefore approved them. The annual financial statements have thus been adopted. Finally, the Supervisory Board audited the separate combined non-financial report in accordance with its obligation pursuant to section 171 (1) sentence 4 AktG. It did not identify any issues.

The Supervisory Board also approved the Board of Management's proposal to use the accumulated income reported as at 31 December 2018 to pay a dividend of €0.15 per dividend-bearing share.

## COMPOSITION OF THE SUPERVISORY BOARD AND ITS COMMITTEES

The changes in the composition of the Supervisory Board in 2018 are described below.

Following the re-election of the twelve members of the Supervisory Board at the Annual General Meeting on 26 April 2018, only one new appointment was made in 2018: on 20 December 2018, at the request of the Board of Management and as recommended by the Nominations Committee, the local court in Cologne appointed Dr Ing Ulrich Dohle as a shareholder representative on the Supervisory Board of DEUTZ AG with effect from 1 January 2019 and until the next Annual General Meeting in 2019. He succeeds Mr Hans-Georg Härter, who stepped down from his post with effect from 31 December 2018. The Supervisory Board would like to thank Mr Härter for his very successful work. The Supervisory Board will propose to the Annual General Meeting that Dr Ing Ulrich Dohle be elected as one of its members for the remaining term of the other Supervisory Board members, i.e. until the Annual General Meeting in 2023.

In its meeting on 13 December 2018, the Supervisory Board elected Dr Ing Bernd Bohr as its chairman with effect from 1 January 2019 and, as such, as the successor to Mr Härter in this role.

In 2018, the following changes were made to the composition of the Supervisory Board's committees after they were reformed subsequent to the Supervisory Board election. In its meeting on 13 December 2018, the Supervisory Board elected Dr Ing Bernd Bohr to the Human Resources Committee, Arbitration Committee and Audit Committee with effect from 1 January 2019. He succeeded Mr Härter in each case. As chairman of the Supervisory Board, Dr Ing Bohr automatically became chairman of the Nominations Committee with effect from 1 January 2019 in accordance with section 7 (3) a) sentence 2 of the Supervisory Board's rules of procedure, which meant that no separate election needed to take place. Dr Ing Bohr has therefore been chairman of the Nominations Committee, Human Resources Committee and Arbitration Committee, as well as a member of the Audit Committee, since 1 January 2019.

## CONFLICTS OF INTEREST / INDEPENDENCE OF SUPERVISORY BOARD MEMBERS / THANKS

No conflicts of interest between members of the Supervisory Board and DEUTZ AG arose in the year under review. The current members of the Supervisory Board of DEUTZ AG are all considered independent within the meaning of article 5.4.2 sentence 2 of the German Corporate Governance Code.

The Supervisory Board would like to express its thanks and appreciation to all employees of DEUTZ AG in Germany and abroad, to the elected employee representatives and to the Board of Management for their valuable efforts and the considerable dedication they showed in 2018.

Cologne, March 2019

Dr Ing Bernd Bohr  
The Supervisory Board